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Before the
Federal Communications Commission
Washington, D. C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of)
Simplification of the Depreciation) CC Docket No. 92-296
Prescription Process)

**COMMENTS
OF THE
UNITED STATES TELEPHONE ASSOCIATION**

The United States Telephone Association (USTA) respectfully submits its comments in the above-referenced proceeding. USTA is the principal trade association of the exchange carrier industry. Its members provide over 98 percent of the exchange carrier-provided access lines in the U.S.

I. INTRODUCTION.

In a Further Order Inviting Comments (FOIC), the Commission seeks comments on proposals for setting ranges for twelve remaining plant categories.¹ USTA accepts the Commission's proposals for the present and urges the Commission to adopt them immediately to achieve near-term administrative savings.

However, the Commission has not resolved the problem that the ranges do not fully reflect realistic market and technology trends. More work must be done if exchange carriers are to

¹See, Simplification of the Depreciation Prescription Process, Report and Order, 8 FCC Rcd 8025 (1993) and Second Report and Order, 9 FCC Rcd 3206 (1994). USTA and a number of other parties filed Petitions for Reconsideration of the Report and Order. See, USTA Petition for Reconsideration filed December 3, 1993. These Petitions are pending.

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deliver an advanced digital broadband communications network to consumers as quickly as the current Administration desires.

II. THE PROPOSED RANGES CAN BE ADOPTED, YET FURTHER IMPROVEMENT OF DEPRECIATION REGULATION IS REQUIRED.

With the adoption of the proposed ranges for eight of the remaining twelve plant categories, the Commission will have covered about 85 percent of exchange carrier plant investment.² USTA commends the Commission for acting to release the FOIC in 1994. The proposed ranges represent a positive step to further the depreciation simplification process. USTA also agrees that there is no need to set ranges for either the "dying accounts" as listed in the FOIC or Account 2121, Buildings.

The Commission should adopt its proposed ranges as soon as possible to permit those telephone companies facing a represcription in 1995 to utilize the ranges and avoid the expensive and time consuming process of filing a detailed study for each of the 34 plant accounts. The Commission itself recognizes the advantages of acting promptly.³

However, the Commission has not yet addressed the need to significantly improve depreciation regulation in order to accommodate changes in technology and the market. To do that, the Commission must adopt forward-looking ranges, as recommended

²FOIC at ¶ 3.

³Second Report and Order at ¶ 12.

by Technology Futures, Inc. (TFI).⁴ The Commission should immediately initiate a review of the ranges for all Copper, Digital Switch and Digital Circuit accounts. In addition, the Commission should eliminate the requirement that full study data is necessary for companies to adopt the ranges and eliminate the requirement to file mortality data. Ultimately, the Commission's objectives will not be realized until carriers are permitted to utilize the Price Cap Carrier option, as discussed in USTA's Petition for Reconsideration.

Even the ranges proposed for key accounts in the FOIC continue to be unrealistic. Unless the ranges more accurately reflect the impact that technology and market pressures will have on exchange carrier investment, carriers will seek to utilize the lower end of the range, which represents their best opportunity to depreciate their plant at a more realistic rate under the current process.

III. THE COMMISSION SHOULD ADOPT USTA'S PETITION FOR RECONSIDERATION AND INITIATE A REVIEW OF ALL COPPER, DIGITAL SWITCHING AND DIGITAL CIRCUIT ACCOUNTS.

In order to rectify the problems described above, depreciation must be more relevant to technology and to the market. Exchange carriers also need greater flexibility to move their depreciation rates into line with other telecommunications

⁴See, USTA Comments filed December 17, 1993 at Attachment 2.

providers.⁵ The Commission should proceed to grant USTA's Petition for Reconsideration. As discussed in that Petition, the Price Cap Carrier option produces the maximum public interest benefits. It best meets the Commission's goals and it can be implemented without any adverse impacts. If the Commission does not permit exchange carriers to utilize the Price Cap option, it must modify the Basic Factor Range option as recommended in USTA's Petition and direct its staff to immediately undertake a review of the ranges for all Copper, Digital Switching and Digital Circuit accounts.⁶

The Commission should rely on the TFI study in setting the life ranges it will prescribe for carriers' accounts. The current ranges, both those adopted in the Second Report and Order and those proposed in the FOIC, incorporate historical factors that can no longer accommodate the massive change occurring in the telecommunications industry and set future depreciation lives

⁵Composite depreciation rates for exchange carriers in 1992 averaged about 7.0 percent, a figure that is substantially lower than rates used by companies using similar assets. Unregulated interexchange carriers and access carriers such as MCI (8.4 percent composite rate in 1992) and MFS (8.2 percent composite rate in 1992) and dominant carriers such as AT&T (10.0 percent composite rate in 1992) all booked depreciation costs substantially above those allowed for the exchange carriers. USTA Petition for Reconsideration at p. 2.

⁶If the Commission proceeds as recommended in these comments, it will be able to conserve valuable resources by avoiding lengthy and time consuming review of unnecessary studies thereby freeing staff to undertake a review of all the Copper, Digital Switch and Digital Circuit accounts.

with sufficient accuracy.⁷

USTA's Petition for Reconsideration also discussed the need to eliminate the requirements for detailed studies to move into the ranges and to perform and maintain mortality analysis. No party opposed USTA's recommendations. Exchange carriers should not be required to complete detailed studies if any factor is currently outside of the range. Since the ranges are already deemed reasonable and simplified studies are required in any case, detailed studies are unnecessary.⁸ As long as detailed studies are required for accounts which do not fall into the ranges adopted, very limited simplification may be realized.

Likewise, exchange carriers should not be required to perform and provide mortality analysis. This requirement is burdensome and unnecessary, particularly under the Basic Factors Range process. This requirement eliminates a significant opportunity for simplification.

IV. CONCLUSION.

The Commission should take every opportunity to adopt ranges on a forward-looking basis to better reflect technological and

⁷For example, the range for underground cable is inconsistent with current Administrative policy. The projected life even at the low end of the range anticipates final retirement near the year 2030. Delaying recovery of this investment until that time creates a strong disincentive for technology deployment. This could delay the implementation of the information "superhighway".

⁸Companies using the ranges should file statements A and B.

market pressures and to permit exchange carriers to modernize networks to meet overall national and international market demands. In order to provide the intended benefits of the limited simplification permitted, the Commission should proceed expeditiously to adopt the proposed ranges, adopt USTA's Petition for Reconsideration and initiate a review of the Copper, Digital Switch and Digital Circuit accounts.

Respectfully submitted,

UNITED STATES TELEPHONE ASSOCIATION

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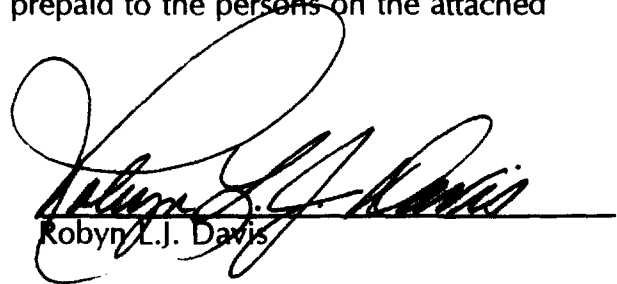
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November 14, 1994

CERTIFICATE OF SERVICE

I, Robyn L.J. Davis, do certify that on November 14, 1994 copies of the Comments of the United States Telephone Association were either hand-delivered, or deposited in the U.S. Mail, first-class, postage prepaid to the persons on the attached service list.


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